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UNCLAS BRATISLAVA 001107

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DEPT PASS TO USTR FOR RDRISCOLL
TREASURY FOR CHGREWE
USDOC FOR MROGERS AND STIMMINS

E.O. 12958: N/A
TAGS: ECON PGOV LO
SUBJECT: GOS PASSES 2005 BUDGET WITH INDEPENDENTS' SUPPORT

¶1. Summary. The Slovak parliament voted 82-63 to approve the 2005 GOS budget. The lawmakers also approved the country's budget outline through 2007, the first multi-year plan ever, a decisive step for Slovakia's ambition to adopt the Euro by 2009. Once again, the ruling coalition relied upon independent MPs to secure passage. The budget must still be signed by the President to become law. End summary.

PARAMETERS

¶2. On December 9, Slovak lawmakers approved the 2005 state budget with an overall deficit of 3.8 percent of GDP, an improvement compared to the 3.97 percent of GDP target for ¶2004. Costs related to pension reform, which starting January 1, 2005 allows Slovaks to shift half of their pension premiums from state-run to newly created private accounts, will equal 0.4 percent of GDP.

¶3. In the 150-seat Parliament, a total of 82 deputies voted for the bill, 63 against it, and five were absent. The ruling coalition currently controls only 69 votes, and secured 12 votes from independent MPs (including Ivan Simko, formerly of the Free Forum caucus), and one renegade member of the Free Forum, Alexej Ivanko. Following the ballot, Finance Minister Ivan Miklos said the agreement was reached at the last minute and "the budget talks had been the toughest in Slovakia's history."

¶4. In nominal terms, the 2005 spending plan predicts revenues of SKK 257.2 billion (USD 8.8 billion), up 10.8 percent from 2004, and expenditures of SKK 318.7 billion (USD 10.9 billion), up 2.6 percent. This leaves a deficit of SKK 61.5 billion (USD 2.1 billion), versus SKK 78.4 billion (USD 2.6 billion) in 2004. The budget assumes real annual GDP growth of 4.5 percent compared to an estimated 4.7 percent in 2004, annual inflation of 3.3 percent versus 7.8 percent this year, and an unemployment rate of 14.4 percent, down from 14.6 percent in 2004. Analysts feel these assumptions are conservative, and therefore expect the GOS's performance to be even better than forecast.

MULTI-YEAR PLAN

¶5. For the first time in the Slovak history, lawmakers also approved a multi-year spending plan, with 2006's budget deficit set at 3.9 percent of GDP and 2007's at 3 percent. (NOTE: Cutting the deficit below 3 percent of GDP is one of the criteria to qualify for Euro adoption). The cost of overhauling the pension system will equal 1 percent of GDP in 2006 and 1.1 percent in 2007.

¶6. Comment. Public expenditures, which equaled 44 percent of GDP in 2002, should account for 39.5 percent of GDP by ¶2006. In spite of a smaller role by the state in the economy, the GOS was able to increase public expenditures by 10 percent in 2005 (in nominal terms). At the same time, the GOS decreased the 2004 overall tax and payroll burden to 30.8 percent, third lowest in the EU (the EU average is 38.8 percent). Finally, total state debt should only rise from 44.4 percent of GDP in 2004 to 45 percent in 2007, well below the 60 percent limit required for Euro adoption. In its first year after adopting a 19 percent flat tax rate for individuals and corporations, the GOS has greatly improved its fiscal health.
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